

History of the U.S. Department of Agriculture 1993-2000

Archival Documents

Chapter 1: Farm Policy Risk Management

Agency

Federal Agriculture Improvement and Reform Act of 1996

Press release announcing implementation of Risk Management Education

Introduction to Risk Management Brochure

Building a Risk Management Plan Guide

Manager's Bulletin's implementing provisions

Federal Agriculture Improvement and Reform Act of 1996

Conference Report

\$5 MILLION COMMITMENT TO RISK MANAGEMENT

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SECRETARY GLICKMAN ANNOUNCES \$5 MILLION COMMITMENT TO RISK MANAGEMENT
EDUCATION

WASHINGTON, April 9, 1997--Agriculture Secretary Dan Glickman announced a multi-year \$5 million initiative to energize risk management outreach. The initiative is expected to intensify private and public sector efforts to introduce producers to risk management tools.

"The goal of our initiative is to make producers and their advisors smart consumers of risk management tools," said Glickman. This initiative will help farmers develop the ability to critically evaluate and apply risk management strategies so they can take advantage of opportunities while minimizing mistakes."

For years, farm advisors have taught a number of disciplines loosely termed "risk management", covering a range of products and issues including insurance, futures, options, forwards, cash management, financial planning, and others. Given the cutbacks in the traditional web of federal programs that have provided a safety net to producers, no one area alone can provide producers an adequate perspective on managing risk. To be successful, risk management education must teach producers to be conversant with the full range of products and strategies that will help them address price and yield fluctuations.

A steering committee composed of USDA's Risk Management Agency (RMA), Cooperative State Research, Education, and Extension Service (CSREES) and Commodity Futures Trading Commission (CFTC) will help develop plans to engage a nationwide network of organizations, both public and private, to reach producers and their advisors. To formalize their intentions, a memorandum of understanding was signed by the participating agencies on April 8. USDA will fund and approve the initiatives.

USDA has also finalized the establishment of the RMA in response to a farm bill mandate. The farm bill directs RMA to move beyond its traditional role of administering a crop insurance program to creating products and approaches using futures markets, savings accounts, options and other means to reduce price and production risks.

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NOTE: USDA news releases and media advisories are available on the Internet. Access the USDA Home Page on the World Wide Web at <http://www.usda.gov>

BULLETIN NO.: MGR-96-031

TO: All Reinsured Companies
All Risk Management Field Offices
FSA Headquarters, Program Delivery and Field Operations

FROM: Kenneth Ackerman
Acting Administrator

SUBJECT: Implementing Provisions of the Federal Agriculture Improvement
and Reform Act of 1996

BACKGROUND:

The Food Security Act of 1985 contains provisions that restrict a producer's eligibility for crop insurance if an insurable commodity is produced on any acreage which is classified as predominantly highly erodible land or converted wetland. These restrictions, commonly referred to as sodbuster and swampbuster provisions, apply to commodities planted in any crop year after the date of enactment of the Food Security Act of 1985, unless expressly exempted.

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act) amends the sodbuster and swampbuster provisions so that they no longer affect a producer's eligibility for crop insurance. Since these changes are effective 90 days after the April 4, 1996, enactment of the 1996 Act, they take effect on July 3, 1996.

ACTION:

Effective on July 3, 1996, crops produced on highly erodible land or converted wetland are eligible for crop insurance. Since this amendment occurs in the middle of the crop year, the following applies:

- (1) For losses that occur on a unit on or before July 3, 1996:
 - (a) Producers are still required to be in compliance with the sodbuster and swampbuster provisions until July 3, 1996.
 - (b) Insurance providers are required to verify compliance with the sodbuster and swampbuster provisions. Producers who falsely certify to compliance with the sodbuster and swampbuster provisions are subject to administrative or criminal penalties.
 - (c) Producers not in compliance with sodbuster or swampbuster on the date that the cause of loss occurs on a unit, will not be eligible for an indemnity payment on that unit. No premium will be due for any unit that is ineligible for an indemnity under these circumstances. After such a loss, the producer will have the option of canceling the policy for the crop year or maintaining the policy to be eligible for an indemnity for losses on any other unit that may occur after July 3, 1996.
 - (d) Insurance premiums will be due and payable on any unit eligible for an indemnity.
- (2) For any loss that occurs after July 3, 1996, the producer will be eligible for an indemnity regardless of whether the producer was out of compliance with the sodbuster or swampbuster provisions at any time during the crop year.

Insurance providers will be required to verify the dates of all causes of loss.

The Controlled Substance Provision of the Food Security Act of 1985 was unaffected by the 1996 Act, therefore, the policy provisions related to controlled substance violations remain in effect.

BULLETIN NO.: MGR-96-014

TO: All Reinsured Companies
All Risk Management Field Offices
FSA Headquarters, Program Delivery and Field Operations

FROM: Kenneth D. Ackerman
Deputy Administrator

SUBJECT: Implementing Provisions of the Federal Agriculture Improvement and Reform Act of 1996

BACKGROUND:

The Federal Crop Insurance Reform Act of 1994 required producers to obtain at least the Catastrophic Risk Protection level of insurance coverage (CAT) on all insurable crops of economic significance to maintain eligibility for many USDA programs. The requirement between program benefits and Federal crop insurance was referred to as linkage. The Federal Agriculture Improvement and Reform Act of 1996 (FAIR) changed this requirement. Producers now may maintain linkage by:

1. obtaining at least the CAT level of insurance protection, or
2. waiving eligibility for emergency crop loss assistance in connection with the crop.

Provisions of FAIR permit carryover insureds to cancel CAT level policies or allow producers of spring planted crops to enroll in crop insurance at the CAT level during an extended sales period.

FAIR provides the Secretary discretion in structuring the required waivers. Waivers can be generic, applying to some or all crops grown on a farm and for multiple years. Waivers are effective for all crop year 1996 crops. A waiver can be designated as effective until canceled. Failure to have a waiver in place while also failing to obtain or maintain Federal crop insurance will disqualify a producer from obtaining a "linked" benefit. To this extent, linkage under the crop insurance reform program still exists.

For 1996 crops, waivers can be provided up until the application for the linked benefit. By signing a waiver, a producer does not forego the ability to purchase Federal crop insurance. Nor does a waiver waive the producer's eligibility for USDA emergency loans or payments under the Noninsured Assistance Program (NAP). The waiver provision is targeted at blocking future emergency crop loss assistance programs.

A waiver must be personally signed by the producer. Since waivers are an eligibility condition for farm programs and farm loans and are not an insurance requirement, producers should be referred to local Farm Service Agency (FSA) offices for information relative to waivers.

FAIR provides a transition period following enactment during which time the producer may:

1. obtain CAT coverage for spring planted crops,
2. cancel 1996 CAT policies for crops that were insured the previous crop year if the crop insurance acreage reporting date for the crop has not passed,
3. obtain the new Malting Barley Price and Quality Endorsement or

purchase limited or additional barley coverage only for the purpose of obtaining the new endorsement (see barley instructions, Par. 3).

ACTION:

I. ACCEPTANCE OF POLICIES DURING EXTENDED SALES PERIOD

CAT applications for spring planted crops with a sales closing date on or after January 15, 1996, or spring planted small grains (no fall planted acreage is eligible for coverage) with a sales closing date prior to January 15, 1996, will be accepted through May 2, 1996. Producers must be advised that the crop insurance application will not be accepted and insurance will not be in effect until 10 days after the application is signed. A preacceptance inspection is not necessary. Producers must:

1. Pay any applicable administrative fee at the time of application.
2. Certify that the crop:
 - A. Has not been planted and there is reasonable basis to believe that it can be planted by the final planting date, or
 - B. Has been planted and is in good condition (capable of producing at least 90 percent of the APH yield for the crop on the unit).

Producers unable to certify to one of the statements above shall be denied coverage. Thus, they must sign a waiver to maintain linkage.

II. CANCELLATION OF EXISTING CAT POLICIES

In accordance with FAIR, insurance providers may accept cancellation of a CAT policy until May 2, 1996, provided:

1. The crop was insured the previous crop year. Cancellation provisions do not apply to crop insurance policies initially purchased for the 1996 crop year.
2. The cancellation is requested prior to the earlier of May 2, 1996, or the 1996 crop insurance acreage reporting date for the crop.

Producers may not cancel existing policies to transfer to another insurance provider during this period unless the producer has barley CAT coverage and decides to purchase a limited or additional barley policy only for the purpose of obtaining the new barley endorsement. For the 1996 crop year, carryover policies will be terminated if the administrative fee is not paid by the crop insurance acreage reporting date for the crop. Any administrative fee(s) already paid will not be refunded to the producer.

Insurance providers are encouraged to caution producers that canceling their crop insurance policy without signing the waiver may cause them to be ineligible for USDA program benefits.

III. BARLEY PRODUCERS

Insurance providers are authorized to administer the barley provisions of FAIR in order for producers to obtain coverage under the Malting

Barley Price and Quality Endorsement according to the following instructions.

1. Uninsured barley producers may make application for limited or additional coverage and elect either Option A or Option B under the Malting Barley Price and Quality Endorsement in counties where the endorsement is available. Insurance coverage shall not attach to any policy obtained under this paragraph until 10 days after application. The requirements and instructions contained in Paragraph I shall apply to these applications.
2. During the extended sales period, insured barley producers may:
 - A. For limited and additional coverage policyholders, cancel the Malting Barley Endorsement (95-91A) and add either Option A or Option B under the new Malting Barley Price and Quality Endorsement to the existing barley policy in counties where the new endorsement is available.
 - B. Elect to change Option A or Option B, that was previously elected under the new endorsement to a different option (A or B) appropriate for their operation.
 - C. For CAT policyholders, increase coverage to limited or additional coverage and add either Option A or Option B under the Malting Barley Price and Quality Endorsement in counties where the new endorsement is available. If the CAT policy is with the FSA and limited or additional coverage is purchased, the FSA will transfer the policy to the assuming insurance company. See 1996 FCIC 18100 (CAT handbook) Section 4, Par. C(2) for refunds of administrative fees and Section 4, Par. L(3) for the transfer procedure.

IV. STANDARD REINSURANCE AGREEMENT (SRA)

1. May 2, 1996, is the sales closing date for the purpose of determining the required processing date for policies written under the authority of FAIR.
2. The company must insert the code "3" in field 14 of the type 14 record if the policy is to be placed into the Assigned Risk fund.
3. The company must insert code "1" in field 47 of the type 11 record for new barley policies with the Malting Barley Price and Quality Endorsement if the record will be processed initially after the date that administrative expense reimbursements are reduced for late reporting.
4. All policies written or modified during this extended period must contain the code "6" in field 15 of the type 14 record.
5. Insertion of the codes as authorized above represents the company's certification that the policy was written solely under the provisions of FAIR and this Bulletin.

United States Department of Agriculture
Risk Management Agency

Revised December 1997

Introduction to Risk Management

Understanding Agricultural Risks:

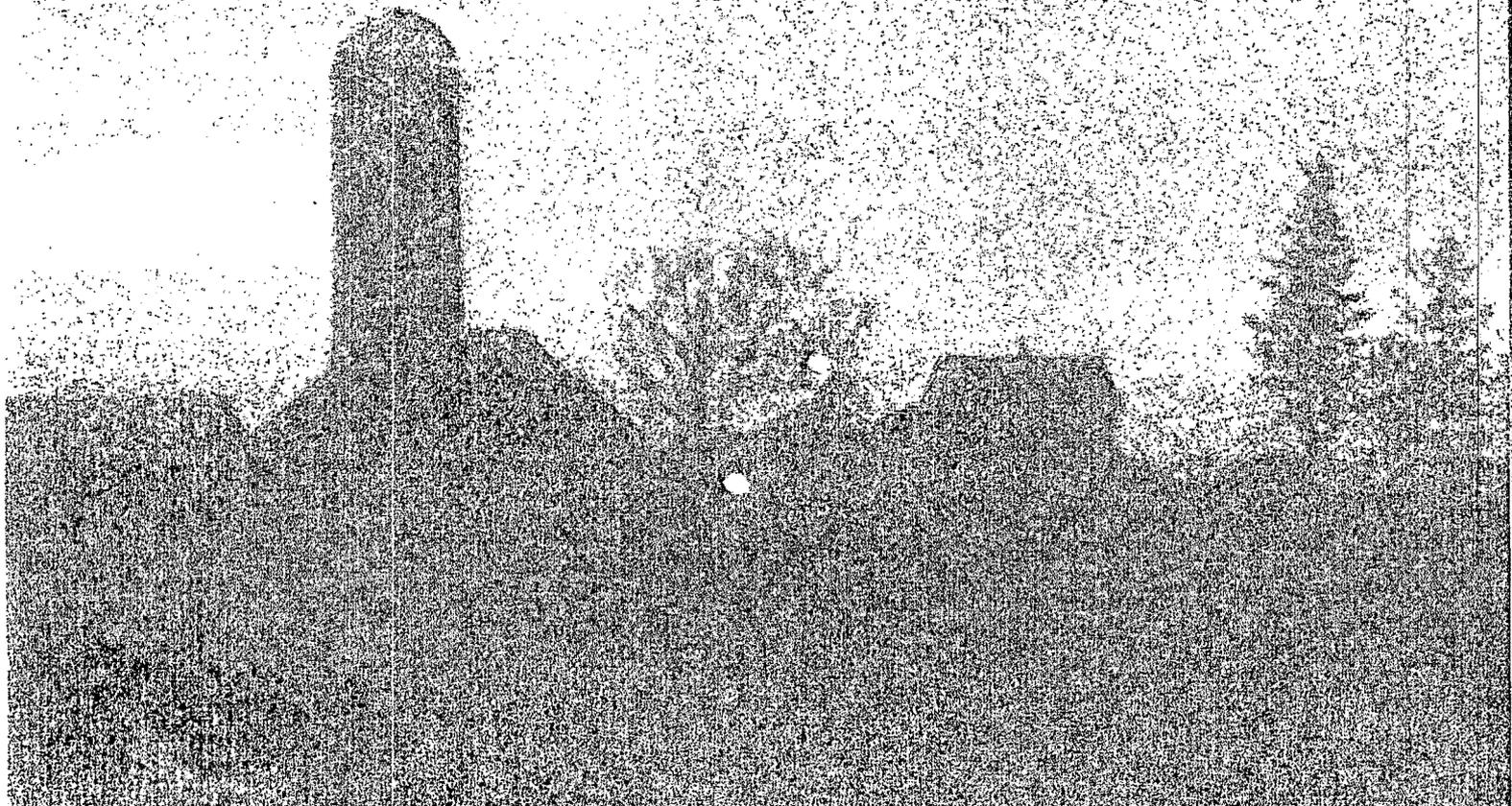
Production

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RISK REDUCING IDEAS THAT WORK

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United States Department of Agriculture

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August 1998

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